

In the Matter of the Nebraska ) Application No. NUSF-50  
Public Service Commission, on ) Progression Order No. 2  
its own motion to make )  
adjustments to the universal )  
service fund mechanism )  
established in NUSF-26. )

In the Matter of the ) Application No. C-  
Commission, on its own ) 3554/PI-112  
motion, seeking to )  
investigate whether the zones )  
established in Docket No. C- )  
2516 are appropriate in light )  
of NUSF-26 findings and )  
conclusions. ) Entered: April 17, 2007

Consistent with the terms of the prehearing conference, the Staff of the Nebraska Public Service Commission (Staff) hereby submit the following prefiled testimony in the above-captioned proceeding.

1. Direct testimony of Tyler Frost on behalf of the Communications Department and Nebraska Infrastructure and Public Safety Department of the Nebraska Public Service Commission
2. Direct testimony of Dr. David Rosenbaum on behalf of the Communications Department and Nebraska Infrastructure and Public Safety Department of the Nebraska Public Service Commission

Dated this 17th day of April, 2007.

Respectfully submitted

By: 

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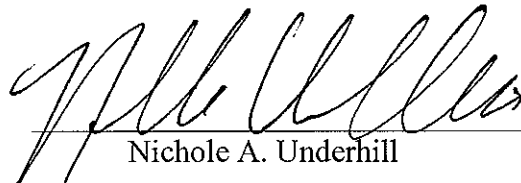
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**DIRECT TESTIMONY OF**

**TYLER FROST**

**ON BEHALF OF**

**THE NEBRASKA PUBLIC SERVICE COMMISSION**

**April 17, 2007**

1 Q: Please state your name and spell it for the record?

2 A: Tyler Frost.

3

4 Q: By whom are you employed?

5 A: The Nebraska Public Service Commission.

6

7 Q: What are your title and your job responsibilities?

8 A: My title is Analyst/Economist II. As such, I model,  
9 create, and analyze various methodologies, scenarios, and  
10 environments to assist in the development of policy as it  
11 relates to various Commission regulated proceedings.

12

13 Q: Please describe your education and training.

14 A: I currently hold a Bachelor of Science in Mathematics  
15 and a Master of Arts in Economics, both from the University  
16 of Nebraska, Lincoln.

17

18 Q: As part of your responsibilities did you assist in the  
19 development of the staff proposal in the present docket?

20 A: Yes.

21

22 Q: Are you familiar with the staff proposal, as well as  
23 Commission orders in Applications C-2516 and NUSF-26?

24 A: Yes.

1

2 **Q: What is the purpose of your testimony?**

3 A: The purpose of my testimony is to provide a general  
4 explanation of the Staff Proposal, its components; the  
5 Unifying Method and the Porting Method, and its underlying  
6 calculations.

7

8 **Q: Please provide a general description of the staff**  
9 **proposal; how it enhances the methodology established in**  
10 **Application No. C-2516, and how it impacts Application No.**  
11 **NUSF-26?**

12 A: The Staff Proposal's Unifying Method (UM) increases  
13 the number of zones established in C-2516, from three to  
14 six, bifurcating each existing zone into two; in-town and  
15 out-of-town, and determines UNE loop rates for each. The  
16 Staff Proposal's Porting Method (PM) then utilizes the UM's  
17 results to determine monthly per-line NUSF portable support  
18 amounts.

19

20 **Q: Please explain the Unifying Method.**

21 A: The UM modifies the unbundled network element loop  
22 (UNE-L) rates, effective as a result of C-2516, and

1 develops UNE-L rates for in-town and out-of-town areas,  
2 consistent with the support areas determined in NUSF-26<sup>1</sup>.

3

4 **Q: Please describe the UM's calculations.**

5 A: The proposed methodology first calculates a measure of  
6 total UNE-L revenue. This measure is based on effective  
7 UNE-L rates, zones<sup>2</sup> as determined in C-2516, and total area  
8 residential access lines. The measure of UNE-L revenue is  
9 then allocated, by zone, to in-town and out-of-town areas.  
10 The in-town/out-of-town bifurcation is accomplished through  
11 the application of factors<sup>3</sup> developed utilizing NUSF-26 data  
12 and results.

13 Once in-town and out-of-town total UNE-L revenue  
14 amounts are determined for each zone; per-line UNE-L rates,  
15 for each in-town zone area and out-of-town zone area, are

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<sup>1</sup> In the Matter of the Nebraska Public Service Commission, on its own motion, seeking to establish a long-term universal service funding mechanism, Application No. NUSF-26, Findings and Conclusions, (November 3, 2004); In the Matter of the Nebraska Public Service Commission, on its own motion, seeking to establish a long-term universal service funding mechanism, Application No. NUSF-26, Second Erratum to Progression Order No. 5, (July 22, 2004) at Appendix A.

<sup>2</sup> In the Matter of the Commission, on its own motion, to investigate cost studies to establish Qwest Corporation's rates for interconnection, unbundled network elements, transport and termination, and resale, Application No. C-2516/PI-49, Findings and Conclusions (April 23, 2002) at Appendix B.

<sup>3</sup> The bifurcation factors are defined as the percentage of expected loop revenue, determined using a household weighted expected loop cost amount and households, in a specific in-town or out-of-town area, by zone.

1 determined using the respective access line counts<sup>4</sup> and  
2 employing simple division.

3 The resulting UNE-L zone rates illustrate, and  
4 coincide with, the findings in NUSF-26; in-town areas are  
5 less costly to serve and do not need universal service  
6 support.

7  
8 **Q: Are there any reasonable alternatives to the 6-zone**  
9 **configuration?**

10 A: Yes. As a reasonable alternative to the 6-zone  
11 configuration, a 4-zone configuration could also be  
12 considered whereby all in-town areas in current zones 1, 2  
13 and 3 would constitute one zone. Out-of-town Zones 1, 2  
14 and 3 would constitute three separate zones.

15  
16 **Q: Please explain the PM.**

17 A: The PM determines the amount of monthly per-line NUSF  
18 support ported to a competitive Nebraska Eligible  
19 Telecommunications Carrier (NETC) upon capture of an access  
20 line previously served by an incumbent NETC, and develops  
21 NUSF portable support amounts consistent with the support  
22 areas determined in NUSF-26.

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<sup>4</sup> Total residential access lines are allocated to in-town and out of-town areas using NUSF-26 household data.

1       The PM utilizes the in-town and out-of-town results of  
2       the UM to determine monthly per-line NUSF portable support  
3       amounts.

4  
5       **Q:    Please describe the PM's calculations.**

6       **A:**    The competitive NETC's cost of providing the unbundled  
7       loop is equivalent to the UNE-L rate for the respective  
8       zone. Thus, the maximum per-line NUSF portable support, if  
9       applicable<sup>5</sup>, is equal to the UNE-L rate minus a loop revenue  
10      benchmark amount.<sup>6</sup> At no point shall the per-line NUSF  
11      portable support exceed the calculated maximum amount.

12       One additional step is necessary to ensure per-line  
13      NUSF support amounts ported to a competitive NETC, for a  
14      particular line, do not exceed NUSF support amounts  
15      previously received by the incumbent NETC for said line.  
16      Consequently, a per-line NUSF support amount is calculated  
17      for each in-town and out-of-town zone, based on the  
18      incumbent NETC's current NUSF support. At no point shall  
19      the ported NUSF support amount exceed this NUSF support  
20      amount.

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<sup>5</sup> In the event the loop revenue benchmark amount exceeds the UNE-L rate for the respective area, the maximum per-line NUSF portable support amount is zero.

<sup>6</sup> The ILEC's NUSF-26 loop revenue benchmark, with the removal of the Access Lines per Household adjustment, to ensure unit commonality, is utilized for the calculation.

1       The actual monthly per-line NUSF portable support  
2       amount is then equal to the minimum of either the portable  
3       support, based on a competitive NETC's cost to provide the  
4       unbundled loop, or the per-line NUSF support provided via  
5       the NUSF-26 mechanisms.

6

7   **Q:   Does this conclude your testimony?**

8   **A:   Yes.**

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**DIRECT TESTIMONY OF**

**DR. DAVID ROSENBAUM**

**ON BEHALF OF**

**THE NEBRASKA PUBLIC SERVICE COMMISSION**

**April 17, 2007**

1 **Q: Please state your name, title and business address**

2 A: David Rosenbaum, Economic Consultant to the Nebraska Public  
3 Service Commission, Department of Economics, University of  
4 Nebraska, Lincoln NE 68588-0489.

5

6 **Q: What is the purpose of your testimony?**

7 A: To comment on the forward looking nature of UNE loop rates  
8 and NUSF support as proposed in this docket, and to comment on  
9 why six zones eliminates competitive distortions created by the  
10 current three zones.

11

12 **Q: How were UNE loop rates established in Docket C-2516?**

13 A: Loop costs were estimated using three forward-looking,  
14 TELRIC compliant, cost models; BCPM, HCPM and HAI. Results from  
15 the models were averaged to get a forward-looking loop cost by  
16 wire center. Wire centers were aggregated into three zones,  
17 based on their loop costs. Finally, average loop costs were  
18 determined for each zone based on the aggregation.

19

20 **Q: How were the UNE zones established in C-2516?**

21 A: In C-2516, the Commission found that areas with similar  
22 cost characteristics, exhibiting similar cost structures, should

1 be grouped into zones with an average price developed for each.<sup>1</sup>  
2 Specifically, to define zones, the Commission adopted a  
3 statistical cluster analysis methodology to aggregate wire  
4 centers into zones based on loop cost; and found the method  
5 "...fosters competition and is appropriate, cost-based,  
6 economically sound, competitively accurate and based on TELERIC  
7 pricing principles."<sup>2</sup> Average loop costs were determined for  
8 each zone based on the aggregation.

9 The Staff Proposal put forth in this current proceeding  
10 does nothing to undue the methodology established in C-2516, but  
11 rather builds on the principles previously found and enhances  
12 the methodology previously employed.

13  
14 **Q: How many zones were established in C-2516?**

15 **A:** Three. The Commission, in Application No. C-2516, created  
16 three zones<sup>3</sup> pursuant to Federal Communications Commission (FCC)  
17 regulations giving state commissions the authority to create  
18 rate zones in determining the unbundled element network loop

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<sup>1</sup> In the Matter of the Commission, on its own motion, to investigate cost studies to establish Qwest Corporation's rates for interconnection, unbundled network elements, transport and termination, and resale, Application No. C-2516/PI-49, Findings and Conclusions (April 23, 2002) ¶79.

<sup>2</sup> Id. ¶81.

<sup>3</sup> In the Matter of the Commission, on its own motion, to investigate cost studies to establish Qwest Corporation's rates for interconnection, unbundled network elements, transport and termination, and resale, Application No. C-2516/PI-49, Findings and Conclusions, (April 23, 2002) and In the Matter of the Commission, on its own motion, to investigate cost studies to establish Qwest Corporation's rates for interconnection, unbundled network elements, transport and termination, and resale, Application No. C-2516/PI-49, Compliance Filing Approved in Part and Denied in Part & Other Rates Declared Effective, (June 5, 2002).

1 (UNE-L) rates.<sup>4</sup> The regulation, however, does not limit the  
2 number of zones to three, but merely requires a *minimum* of three  
3 cost-related rate zones.<sup>5</sup>

4  
5 **Q: Are the UNE loop rates established in C-2516 forward**  
6 **looking?**

7 A: Yes they are. They were developed based specifically on  
8 the results of three forward-looking cost models.<sup>6</sup> The UNE loop  
9 rates are cost-based, nondiscriminatory, TELERIC-based, forward-  
10 looking and representative of efficient technologies.<sup>7</sup>

11  
12 **Q: Please describe the Staff Proposal in the current matter as**  
13 **it relates to zones.**

14 A: The Staff Proposal increases the number of zones  
15 established in C-2516, from three to six, by bifurcating each  
16 existing zone into two; in-town and out-of-town. Each newly  
17 defined rate area exhibits similarities in cost characteristics  
18 and structures, reflects geographical cost differences from its  
19 fraternal twin<sup>8</sup>, and continues to advance the goals and  
20 objectives of the Commission. UNE loop rates are determined for  
21 each zone.

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<sup>4</sup> 47 C.F.R. § 54-51.507.

<sup>5</sup> 47 C.F.R. § 54-51.507(f)(1) and (f)(2) (Emphasis added).

<sup>6</sup> C-2516, Findings and Conclusion *supra*, ¶¶73-74.

<sup>7</sup> *Id.*

<sup>8</sup> Frost, Tyler E. and Rosenbaum, David I., "Recommendations for a Permanent Universal Service Support Mechanism." The NRRI Journal of Applied Regulation. Vol. 3, (2005) pp. 31-44.

1

2 **Q: Are the proposed UNE loop rates in each area forward**  
3 **looking as well?**

4 A: Yes they are. The proposed rates are simply a  
5 disaggregation of the current rates. The method of  
6 disaggregating each zone into in-town and out-of-town areas  
7 employs the forward-looking results used in the NUSF docket.  
8 Thus, current forward-looking UNE loop rates<sup>9</sup>, are disaggregated,  
9 based on forward-looking regression results<sup>10</sup>; resulting in  
10 proposed forward-looking UNE loop rates, based on forward-  
11 looking, TELRIC compliant, cost models.<sup>11</sup>

12

13 **Q: Are NUSF portable support payments under the Staff Proposal**  
14 **forward-looking?**

15 A: Yes they are. Portable support payments are predicted upon  
16 underlying forward-looking costs as developed in BCPM, a  
17 forward-looking cost model. It is the smaller of either the  
18 difference between the forward-looking UNE loop rate minus the  
19 benchmark, or the support amount determined by the NUSF

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<sup>9</sup> Id. ¶¶ 73-74.

<sup>10</sup> *In the Matter of the Nebraska Public Service Commission, on its own motion, seeking to establish a long-term universal service funding mechanism*, Application No. NUSF-26 (November 3, 2006), ¶¶ 46, 53; NUSF-26 at Appendix A at 1-3.

<sup>11</sup> Id.; C-2516, Findings and Conclusions, *supra*.

1 methodology from NUSF-50 that was already shown to be forward-  
2 looking.<sup>12</sup>

3

4 **Q: Is the current system with only three UNE zones and NUSF**  
5 **payments determined for in-town and out-of-town support areas**  
6 **competitively neutral?**

7 A: No. Some distortions are created in the existing systems  
8 of NUSF payments and UNE loop prices that can favor a CLEC.  
9 Other distortions favor an ILEC. For example, currently, in  
10 zone three, a CLEC may pay approximately \$62 for an in-town  
11 residential loop. The ILEC would then port the CLEC almost \$70  
12 in NUSF payments. This means the ILEC loses \$8 for every line  
13 it ports, while the CLEC makes \$8 in revenue before it even  
14 sells the line to a residential customer. In such a case, the  
15 ILEC is at a competitive disadvantage and the CLEC at a  
16 competitive advantage.

17 In contrast, for an in-town business line, a CLEC would pay  
18 \$28 in zone two and \$62 in zone three. In either case, it would  
19 receive no NUSF porting. This puts the CLEC at a competitive  
20 disadvantage, especially in zone three.

21

22 **Q: Would the staff's proposal eliminate these problems?**

---

<sup>12</sup> NUSF-26 *supra* ¶¶ 46, 53 and Appendix A at 1-2.

1 A: Yes it would. Matching in-town and out-of-town UNE prices  
2 with NUSF portings in all zones would eliminate these  
3 distortions. It would make the playing field competitively  
4 neutral. The Staff Proposal seeks to integrate the Commission's  
5 findings in Docket C-2516 and NUSF-26 by developing UNE loop  
6 rates and portable NUSF support amounts in an appropriate and  
7 economically sound manner that fosters competition.

8 **Q: Would you please summarize your conclusions regarding the**  
9 **staff proposal?**

10 A: Yes. In conclusion, I wish to make two (2) primary points.  
11 First, the staff proposal is a more competitively neutral method  
12 for determining UNE pricing, favoring neither the ILEC nor the  
13 CLEC and eliminating the problems existing in the current  
14 system. Secondly, the staff proposed method is TELRIC compliant  
15 and forward-looking.

16 **Q: Does this conclude your testimony?**

17 A: Yes it does.